

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

NOTICE OF MARKET-DOMINANT
PRICE ADJUSTMENT

Docket No. R2015-4

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 4-12 OF CHAIRMAN'S INFORMATION REQUEST NO. 8**
(February 13, 2015)

The United States Postal Service hereby provides its responses to questions 4-12 of Chairman's Information Request No. 8, issued on February 6, 2015. Each question is stated verbatim and followed by its response. The responses to Questions 1, 2, and 3 were filed on February 9, 2015.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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4. Table 1 and Table 2 (below) show the proposed workshare discounts for the commercial and nonprofit origin per-piece price categories for Automation and Non-automation Flats.¹ A review of the proposed workshare discounts demonstrates that the piece-rated piece discount is not equal to the pound-rated piece discount for some corresponding presort price categories.
- a. Please provide the rationale for awarding unequal presort discounts for the same level of presortation for some Automation and Non-automation Flats piece-rated piece and pound-rated piece categories in Table 1 and Table 2.
 - b. Please provide a revised Excel file "(Attachment B).xls" that includes the workshare discounts for the pound-rated piece categories that differ from the piece-rated piece categories.
 - c. Please confirm that the workshare discounts for the following six pound-rated piece price categories exceed avoided costs: Commercial Automation 3-Digit; Commercial Automation 5-Digit; Commercial Non-automation ADC; Commercial Non-automation 3-Digit; Commercial Non-automation 5-Digit; and Nonprofit Non-automation ADC. If confirmed, please provide a statutory justification for each of the six workshare discounts. If not confirmed, please explain.

Table 1: Workshare Discounts for Commercial Automation and Non-automation Standard Mail Flats Price Categories

	Piece-Rated Piece Rate	Discounts	Pound-Rated Piece Rate	Discounts
Automation				
Mixed ADC	\$0.539		\$0.382	
ADC	\$0.522	\$0.017	\$0.365	\$0.017
3-Digit	\$0.467	\$0.055	\$0.309	\$0.056
5-Digit	\$0.376	\$0.091	\$0.219	\$0.090
FSS Non-Scheme Pallet/Container	\$0.337	\$0.039	\$0.188	\$0.031
FSS Scheme Pallet/Container	\$0.288	\$0.049	\$0.154	\$0.034
Nonautomation				
Mixed ADC	\$0.577		\$0.423	
ADC	\$0.543	\$0.034	\$0.386	\$0.037
3-Digit	\$0.491	\$0.052	\$0.333	\$0.053
5-Digit	\$0.422	\$0.069	\$0.265	\$0.068
FSS Non-Scheme Pallet/Container	\$0.420	\$0.002	\$0.263	\$0.002
FSS Scheme Pallet/Container	\$0.415	\$0.005	\$0.258	\$0.005

¹ The rates for the piece-rated pieces and pound-rated pieces are from the proposed changes to the Mail Classification Schedule. See *id.* Attachment A, Part I at 47-52.

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Table 2: Workshare Discounts for Nonprofit Automation and Non-automation Standard Mail Flats Price Categories

	Piece-Rated		Pound-Rated	
	Piece Rate	Discounts	Piece Rate	Discounts
Automation				
Mixed ADC	\$0.400		\$0.264	
ADC	\$0.383	\$0.017	\$0.247	\$0.017
3-Digit	\$0.327	\$0.056	\$0.191	\$0.056
5-Digit	\$0.237	\$0.090	\$0.101	\$0.090
FSS Non-Scheme Pallet/Container	\$0.222	\$0.015	\$0.100	\$0.001
FSS Scheme Pallet/Container	\$0.213	\$0.009	\$0.096	\$0.004
Nonautomation				
Mixed ADC	\$0.442		\$0.304	
ADC	\$0.408	\$0.034	\$0.267	\$0.037
3-Digit	\$0.356	\$0.052	\$0.215	\$0.052
5-Digit	\$0.287	\$0.069	\$0.146	\$0.069
FSS Non-Scheme Pallet/Container	\$0.272	\$0.015	\$0.130	\$0.016
FSS Scheme Pallet/Container	\$0.267	\$0.005	\$0.130	\$0.000

RESPONSE:

- a. Tables 1 and 2 list 20 pairs of piece-rated discounts and pound-rated discounts with 8 of the pairs matching and 12 of the pairs not matching. Of the 12 pairs of discounts that do not match, 6 of the pairs are in the newly created FSS categories. For these newly created categories, the goal was to use unadjusted blended prices as long as the desired pricing relationships were maintained. The Postal Service felt it was more important to create sensible incentives for mailers to prepare and deliver their flats in an operationally efficient manner, than to keep the per piece discounts equal between piece-rated and pound-rated pieces. In addition to the CPI prices and discounts, the Postal Service also had to make sure that the incentives were still achieved after the exigent surcharges were added to the CPI prices. This was a very complicated process, and because of the blended volumes involved, the exigent surcharges were not always proportionate between price cells. In these cases, the different piece-rated and pound-rated discounts were necessary in order to preserve desirable pricing

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relationships, thereby providing the proper incentives to encourage efficient mail preparation and entry.

The differences in discounts for piece-rated Flats pieces and pound-rated Flats pieces for existing categories were largely inadvertent. Five of the six discounts differ by only \$0.001. The Postal Service believes this happened inadvertently when the same percent increases were given to two different prices, and one of the prices rounded up while the other price rounded down. No adjustments were made after rounding to make the discounts equal. The sixth pair of price cells, Nonprofit non-automation ADC, varies by \$0.003, which cannot be explained by rounding. The Postal Service plans to eliminate these differences in the next price adjustment.

- b. Please see excel workbook "*Revised Attachment B-CHIR8.xls*", filed with this response, for the pound-rated piece discounts. The relevant information is highlighted in yellow.
- c. Confirmed. The categories have already been justified for their piece-rated counterparts. The same justifications apply to the pound-rated discounts.

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5. The following request pertains to Periodicals tray or tub containerized mail.
- a. Please describe the nature of mailings in which the Postal Service permits the use of flats trays or tubs.
 - b. Please confirm that Periodicals entered in flats trays or tubs are required to pay the sack container charge. If not confirmed, please explain.
 - c. What percentage of Periodicals containers entered in FY 2014 were flats trays and tubs?
 - d. Please provide any studies of the handling and transportation of Periodicals flats trays and tubs conducted by the Postal Service since 2006.
 - e. Please describe any plans the Postal Service has for designing a different charge for flats trays and tubs.

RESPONSE:

- a. All Periodicals mailers have the option of using trays or tubs in lieu of sacks.

However, this option is largely used by smaller mailers.
- b. Confirmed.
- c. 5.5 percent of the Periodicals containers entered in FY 2014 were flats, trays, or tubs.
- d. In the Mail Processing Study of 2008, the Postal Service measured tub prep productivity at Automated Induction (not specific to Periodicals). It is important to note that tub preparation at Automated Induction is one subset of handlings for tubs. Results were shared in USPS-FY08-14, *FacilityStudy.zip*, and have not been updated since. The Postal Service has not conducted a study for mail in flats tubs entered by the mailer.
- e. The Postal Service currently has no plans for designing different charges for flats, trays, or tubs.

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6. In its Response of the United States Postal Service to Questions 3, 17, and 20 of Chairman's Information Request No. 6, the Postal Service filed the Periodicals CPI Price Cap Calculation spreadsheet "CAPCALC-PER-R2105-4-ChIR6Q17.xls" in response to question 17.
- a. Please confirm that the value for tab "Outside County" cell H60 should be \$0.2300. If not confirmed, please explain.
 - b. Please confirm that the value for tab "Outside County" cell H61 should be \$0.3600. If not confirmed, please explain.
 - c. The value for tab "Outside County" cell F60 is \$0.225283. Please explain why the price in that cell is not rounded to 3 digits.
 - d. The value for tab "Outside County" cell F61 is \$0.353640. Please explain why the price in that cell is not rounded to 3 digits.
 - e. In the tab "5D & CR," please explain the purpose of cells F31, F32, G31 and G32.
 - f. Please explain why FY 2014 Quarter 3 data was used in tab "5D & CR" instead of FY 2014 Quarter 3 and 4 data.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Using the unrounded base price number provides the best estimate of the percentage price increase for customers who pay the relevant proposed price (Cell H60). Cell F60 is a calculated base price that is not actually paid by any customer, so there is no need for rounding.
- d. Using the unrounded base price number provides the best estimate of the percentage price increase for customers who pay the relevant proposed price (Cell H61). Cell F61 is a calculated base price that is not actually paid by any customer, so there is no need for rounding.
- e. These cells are part of the source data, but were not utilized.

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- f. The Quarter 4 Mail Characteristics Study data for distinguishing between Carrier Route and 5-Digit pallets is time consuming to prepare, and is not currently available.

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7. In its Response to Chairman's Information Request No. 2, question 2, the Postal Service provided Excel file "Revised_AttachmentB.xlsx."
- a. On tab "Bound Printed Matter Flats," cell F29 was changed to indicate that the dropship discount for BPM Flats Basic, Carrier Route DDU is \$0.747 per piece. Please confirm that the dropship discount for BPM Flats Basic, Carrier Route DDU is \$0.751 (\$1.241-\$0.490) per piece. If confirmed, please file an updated Attachment B Excel file. If not confirmed, please provide an explanation of the Postal Service's calculation.
 - b. On tab "Bound Printed Matter Parcels," cell F8, the Postal Service indicates that the presorting discount for BPM Parcel Presorting, Carrier Route Parcels/PPs is \$0.149 per piece. Please confirm that the presorting discount for BPM Parcel Presorting, Carrier Route Parcels/PPs is \$0.119 (\$1.503-\$1.384) per piece. If confirmed, please file an updated Attachment B Excel file. If not confirmed, please provide an explanation of the Postal Service's calculation.

RESPONSE:

- a. Confirmed. Please see Excel workbook "*Revised Attachment B-CHIR8.xls*", filed with this response
- b. Confirmed. Please see Excel workbook "*Revised Attachment B-CHIR8.xls*", filed with this response

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8. The following request seeks clarification of the billing determinants reported for Special Services in this proceeding and billing determinants reported in the FY 2014 Annual Compliance Report in Docket No. ACR2014 (ACR Proceeding). Please refer to Library Reference USPS-LR-R2015-4, Excel file "CAPCALC-SpecServ-R2015-5.xlsx" and to Library Reference USPS-LR-FY14-4, Excel file "FY 2014 Special Services and Free Blind.xlsx" in the ACR Proceeding. Please link all volume and pricing data, including adjustments, in the Excel file "CAPCALC-SpecServ-R2015-5.xlsx" to the Special Services billing determinants in USPS-LR-FY14-4, Excel file "FY 2014 Special Services and Free Blind.xlsx." In the response, please also include the formula rather than hardcoding in the revenue cells. If changes to Excel file "CAPCALC-SpecServ-R2015-5.xlsx" are required, please update and resubmit that Excel file.

RESPONSE:

Please see the Excel workbooks "*CAPCALC-SpecServ-R2015-4 Rev 2-13.xlsx*" and "*FY 2014 Special Serv REV 2-13-15.xlsx*"², filed with this response, for the requested information. A revised preface for USPS-LR-R2015-4/5 is also being submitted with this response.

² This file was also submitted as part of "Notice of the United States Postal Service of Revisions to USPS-FY-4 -- Errata", filed today in Docket No. ACR2014.

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9. Please confirm that there is no volume in tab "H-5 Shipper-Paid Forwarding" in Excel file "CAPCALC-SpecServ-R2015-4.xlsx." If confirmed, please explain why no volume appears in that tab and file a revised Excel file "CAPCALC-SpecServ-R2015-4.xlsx" if volumes should have been provided. If not confirmed, please explain.

RESPONSE:

Confirmed. No mailers paid an account maintenance fee for this service in FY 2014.

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10. The following request seeks clarification of the proposed Mail Classification Schedule (MCS) changes to "Signature Confirmation" in MCS Section 1505.17 in this proceeding and the billing determinants reported for Special Services in the ACR proceeding. Please refer to Library Reference USPS-LR-R2015-4, Excel file "CAPCALC-SpecServ-R2015-5.xlsx" in this proceeding and Library Reference USPS-LR-FY14-4, Excel file "FY 2014 Special Services and Free Blind.xlsx" in the ACR Proceeding.
- c. In the proposed MCS changes for Signature Confirmation, the price table only lists electronic and retail options; however, in Excel file "CAPCALC-SpecServ-R2015-5.xlsx," tab "F-12," there are entries for First-Class Manual and First-Class Electronic. Please clarify whether manual and/or retail services will be offered. See *a/so* Notice, Attachment A, Part I at 113. If necessary, please provide revised proposed MCS changes and an updated "CAPCALC-SpecServ-R2015-5.xlsx."
 - d. In Excel file "CAPCALC-SpecServ-R2015-5.xlsx," tab "F-12," there is an entry for the inclusion of "Priority Mail NSA" in cell B-16; however, there are no proposed changes to the MCS regarding Priority Mail NSAs. Please update MCS Section 1505.17 "Signature Confirmation" to include the proposed changes resulting from the inclusion of "Priority Mail NSA" in Excel file "CAPCALC-SpecServ-R2015-5.xlsx," tab "F-12." See *a/so* Notice, Attachment A, Part I at 113.
 - e. In Excel file "CAPCALC-SpecServ-R2015-5.xlsx," tab "F-12," there is an entry for "Volume from Insurance Change" in cell B-69 which reflects a volume of 4.8 million in cell C-69 and revenue of "n/a" in cell D-69. Please clarify whether "Volume from Insurance Change" is to be included in Signature Confirmation. If so, please update the proposed MCS Section 1505.17 "Signature Confirmation" to include the changes resulting from the inclusion of "Volume from Insurance Change." See *a/so* Notice, Attachment A, Part I at 113.

RESPONSE:

- a. "Retail" and "Manual" are equivalent. Transactions completed at Post Offices have been referred to as "manual" in the billing determinants since the product was introduced.
- b. The Commission approved an NSA in which Signature Confirmation was offered at a price lower than the list price.³ The line item "Priority Mail NSA" was added to the billing determinants in an effort to report this lower priced volume, since

³ Docket No. MC2013-5, Order No. 1519 – Order Adding Priority Mail and First-Class Mail Package Services Contract 1 to the Competitive Product List (Oct. 26, 2012).

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Signature Confirmation is a Market Dominant product. No MCS changes are needed because the NSA is not a generally available option for Signature Confirmation service.

- c. The line item "Volume from Insurance Change" was only added to account for an adjustment to the billing determinants that reflects that a signature will no longer be collected at the time of delivery for items insured for values from \$200.01 to \$500.00. There was no FY 2014 revenue associated with this line item. Accordingly, no MCS changes are required.

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11. Please confirm Parcel Select Lightweight packages with the Bulk Parcel Return Service (BPRS) endorsement will continue to be eligible for BPRS return prices under Shipper-Paid Forwarding/Return services if the proposed prices and MCS changes are implemented. If not confirmed, please explain and provide citations to where the rate increase resulting from the limitation of the BPRS option for these packages is accounted for in Excel file "CAPCALC-SpecServ-R2015-5.xlsx."

RESPONSE:

Confirmed. The MCS change, which strikes through the BPRS option under Shipper-Paid Forwarding/Return, should not have been included in the proposed language submitted in this Docket.

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12. The following request concerns Library Reference USPS-LR-R2015-4/5, Excel file "CAPCALC-SpecServ-R2015-5.xlsx," tab "K-1 AIS Viewer." Please confirm the totals in the table below should be \$67,815, rather than \$67,772. If not confirmed, please explain.

	Revenue (\$)	
	Existing	New
City State Delivery Type	4,095	4,095
One Time Only	0	0
County Name Retrieval	2,340	2,340
One Time Only	0	0
Delivery Statistic		
Retrieval	43,332	43,332
One Time Only	0	0
ZIP+4 Retrieval	18,005	18,005
One Time Only	43	43
Total	67,772	67,772

RESPONSE:

Confirmed.